Quarterly Portfolio Review
King County Investment Pool

March 31, 2009

Presented by
John Molloy, CFA, Senior Managing Consultant
Robert Cheddar, CFA, Senior Portfolio Manager
PFM Asset Management LLC

Executive Summary

Purpose, Scope and Approach	• PFM Asset Management LLC ("PFM") conducted this report to update our analysis and address any Investment Pool developments since PFM's formal November 2008 review. • Our approach to this review included a detailed portfolio analysis and investment policy compliance review. • Our analysis was based on the Pool's holdings as of March 31, 2009, with some reference to holdings in past periods. • The review encompassed all investments in the County's investment pool.
Investment Program and Portfolio Review	• PFM reviewed the County's portfolio with respect to Investment Policy Compliance, Sector Allocation, Credit Quality, and Maturity Structure. • The County's investment pool is of sound credit quality, well diversified, and appears to have ample liquidity. Nearly all assets are rated at the highest quality and pose minimal risk to principal. As in prior quarters, where longer-term assets are held, they possess high investment grade or better quality ratings and an acceptable risk profile for a slightly longer-term fund.
Observations and Recommendations	• The portfolio possesses very high credit quality. • Potential market risk has increased modestly in the last quarter as the portfolio's weighted average maturity has been increased from 169 to 240 days. In general, however, this level of market risk is consistent with the objectives of the County's pool and others with similar objectives, and is in keeping with the County's reported cash flow expectations. • Liquidity appears to be adequate given the levels of cash and cash equivalents, Washington State LGIP holdings, and marketability of Agencies. • Credit exposure is well-diversified among sectors. The reintroduction of high quality corporate instruments would provide opportunity for additional diversification. • Despite recent concerns, the Agencies remain sound and are expected to be able to pay interest and principal. The level of exposure to Agencies is not a significant concern given their relative safety and support measures from the Federal Reserve and U.S. Treasury. • Portfolio changes over recent quarters, such as leveling the allocation to each agency, reduction in the regional/community bank CD allocation and decrease in the percentage allocated to any single issuer, is beneficial from a safety perspective and has served to increase the overall portfolio credit quality.

Portfolio Review

I. Investment Policy Compliance

II. Risk Factors by Sector

- Federal Agencies
- U.S. Treasuries
- Non-Negotiable CDs
- LGIP and Cash Equivalents
- Municipal Securities

III. Overall Credit Quality

IV. Maturity Breakdown

- Overall
- Sector

I. Investment Policy Compliance – Investment Policy Summary

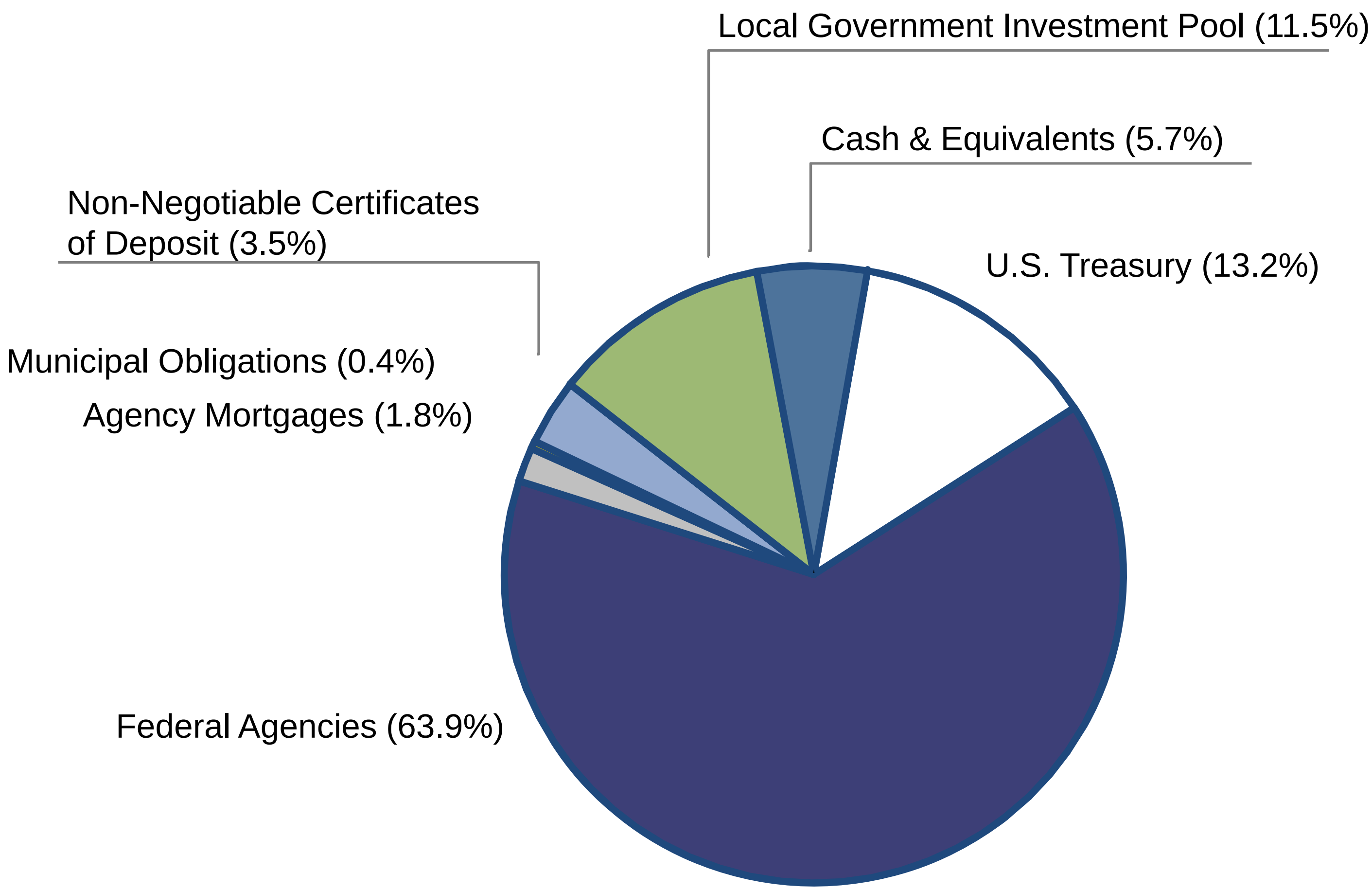
Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Repurchase Agreement	40%	10% per investment dealer; Firm must adopt a master repurchase agreement with the County		60 days or less
Reverse Repurchase Agreement	20% of the total balance of the investment pool at any one time	Firm must adopt a master repurchase agreement with the County		180 days or less
Local Government Investment Pool ("LGIP")	Not addressed in policy	State of Washington LGIP		N/A
U.S. Treasuries	100%	None		Up to 5 years
U.S. Agencies	75%	None		Up to 5 years
Bankers' Acceptances	40%	10%	Any BA purchase must be issued by any of the top 50 world banks in terms of assets as listed by American Banker or by approved domestic banks	Up to 180 days
Certificates of Deposit	20%	7.5% Must be a public depository in the State of Washington		Up to 5 years
Commercial Paper	25%	5% per name per Portfolio	Must carry highest ratings of any two nationally recognized rating agencies at time of purchase	180 days
Municipal Bonds	20%	5%	At time of purchase, bond must have one of the three highest credit ratings of a nationally recognized credit rating agency	5 years
Mortgage-Backed	25%	Must be issued by Federal Agencies of the United States	Must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities. If rated by Fitch, must have rating between V1 and V5	5 year average life at time of purchase
Bank Notes	20%	5%	Bonds must be rated "A" or better by two nationally recognized rating agencies or guaranteed by an agency of the federal government	5 years

I. Investment Policy Compliance – County Investment Pool

Topic	Observations
Sector Allocation	• All sectors are within the County's Investment Policy limits. Treasury holdings have increased to over 13% increasing the overall safety level of the portfolio from its already high level. Federal Agency holdings (Agency + Mortgage) are at 65.7%, representing a 5% reduction from the end of the prior quarter. The County's allocation to Municipal securities is less than 1%. At March 31st there were no investment s in repurchase agreements and the allocation to the Washington state LGIP had increased to 11.5%.
Credit Quality	• The credit ratings of all securities in the County's Investment Pool are in compliance with the County's Investment Policy.
Maturity Distribution	• Maturity distributions all fall within the County's Investment Policy Statement. The longest maturity for all securities is an Agency Mortgage with an average life of 4.0 years, noted in the table below. The longest maturing Agency Note has a time to maturity of 3.6 years.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	207,176,125	5.7%	✓	1 day	✓
Commercial Paper	0	0.0%	✓	N/a	✓
Repurchase Agreements	0	0.0%	✓	N/a	✓
LGIP	414,269,779	11.5%	✓	1 day	✓
Federal Agencies	2,308,317,000	63.9%	✓	3.60 years	✓
Mortgages	64,358,157	1.8%	✓	4 years (WAL)	✓
Certificates of Deposit	125,000,000	3.5%	✓	10 months	✓
Municipal Bonds	15,000,000	0.4%	✓	2.25 years	✓
U.S. Treasury	475,00,000	13.2%	✓	1.59 years	✓

Sector Diversification
as of March 31, 2009

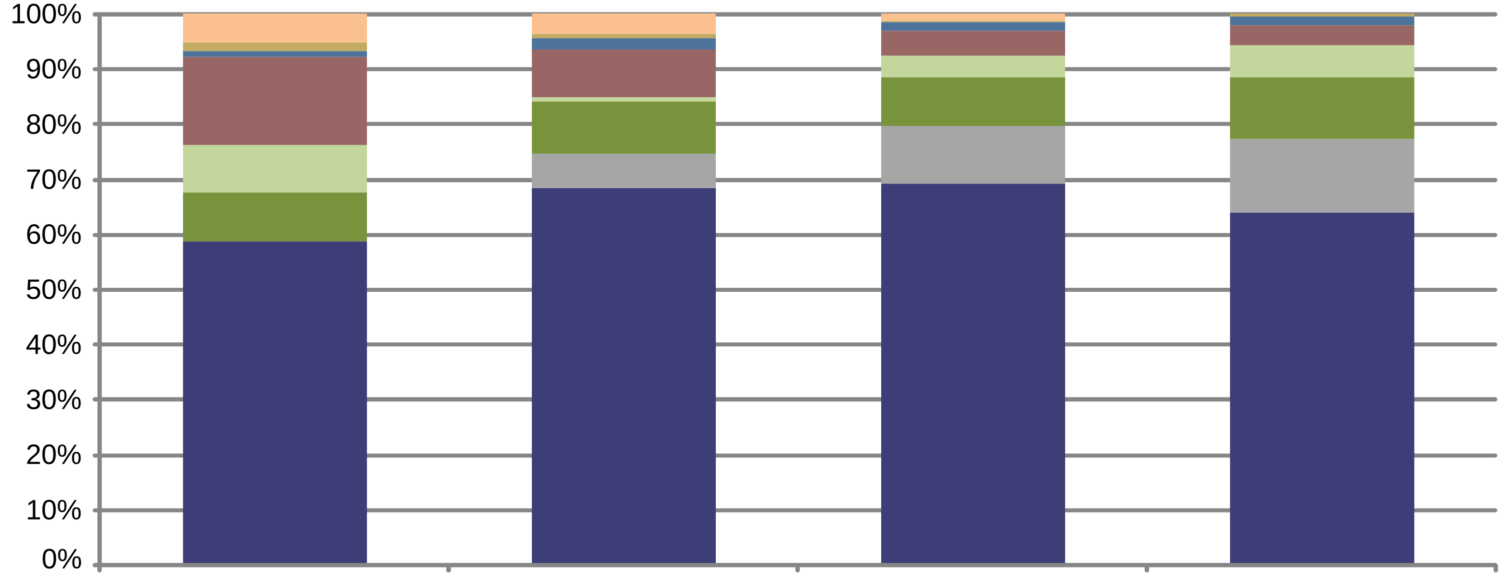


II. Changes in Portfolio Sector Distribution Over Past 12 Months

Changes in Sector Allocations

- Sector allocations appear to be responsive to market changes. For example:
- Over the past 12 months, the County has allocated a larger amount of funds towards U.S. Treasury securities, which are guaranteed by the full faith and credit of the U.S. Government and considered to have the highest liquidity versus similar maturity fixed income securities.
- With the Fed lowering the fed funds target rate to between 0-0.25%, repurchase agreements are yielding near 0%. The County has recently moved away from repos and instead has allocated additional funds to the Washington State LGIP . The Washington State LGIP provides additional liquidity and yield to the County Pool. The Pool ended March with a 11.5% allocation to the Washington State LGIP.

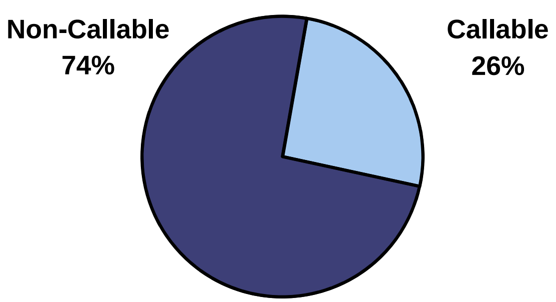
Sector Allocation March 2008 – March 2009



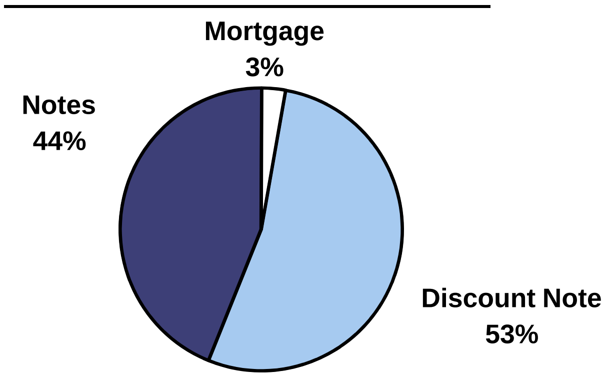
	March 4, 2008	July 31, 2008	November 30, 2008	March 31, 2009
Federal Agencies	58.6%	68.3%	69.1%	63.9%
U.S. Treasury	0.0%	6.4%	10.5%	13.2%
Washington State LGIP	9.0%	9.2%	8.9%	11.5%
Cash and Equivalents	8.7%	1.0%	3.9%	5.7%
Certificates of Deposit	15.8%	8.6%	4.4%	3.5%
Agency Mortgages	1.2%	1.9%	1.5%	1.8%
Municipal Notes	1.6%	1.0%	0.4%	0.4%
Repurchase Agreements	5.1%	3.6%	1.3%	0.0%

Topic	Observations	
Structure	• Non-Callable	74%
	• Callable	24%
	• Discount Notes	53%
	• Notes	44%
	• Agency Mortgage	3%
Diversification	• Freddie Mac (FHLMC)	30%
	• Federal Home Loan Bank (FHLB)	26%
	• Fannie Mae (FNMA)	28%
	• Federal Farm Credit Bank (FFCB)	14%
	• FNR (Mortgages)	1%
	• FHR (Mortgages)	<1%
Conclusions	• Based on the strong commitment of support from the Federal government and evidence that the support mechanisms implemented are functioning as intended, despite the worsening economic situation, we continue to be of the opinion that Federal Agencies' senior debt is an appropriate investment for public entities. • The relatively even distribution of investments among the agencies should serve to temper any short term headline risk if additional deterioration is seen in the financial condition of specific agencies.	

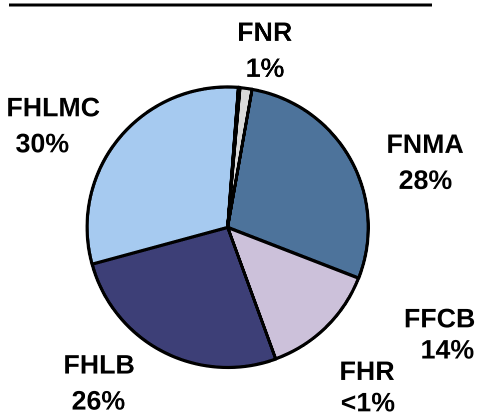
Callable vs. Non-Callable
as of March 31, 2009



Structure Distribution
as of March 31, 2009



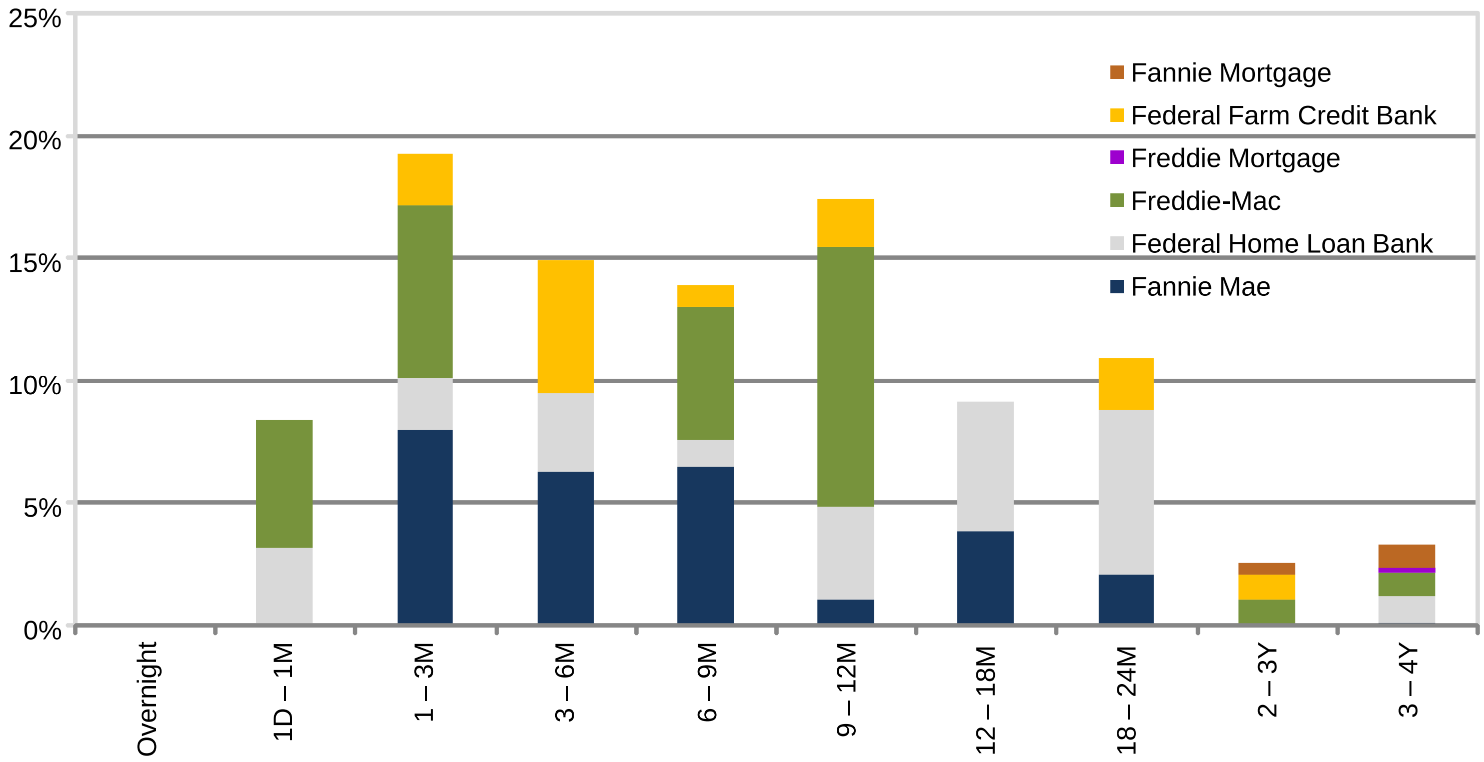
Issuer Diversification
as of March 31, 2009



** All calculations above are based on total Agency exposure, not overall Portfolio*

Topic	Observations
Maturity Distribution	• Maturity distributions all fall within the County's Investment Policy Statement. The longest maturity for all securities is an Agency Mortgage with an average life of 4.0 years, as seen in the table below. The longest maturing Agency Note has a time to maturity of 3.6 years. • Agency holdings are well diversified by issuer and maturity, as well as simply by issuer. The County appears to maintain adequate liquidity through other holdings (Washington State LGIP and Key Bank NOW account). • Additional investment s have been made in the last quarter in the 12 to 24 month range to take advantage of relative value found in that area of the yield curve.

Federal Agency Maturity Distribution by Name



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets;
- All other Agency maturities are calculated as days to maturity

II. Discussion of Federal Agency Credit Issues

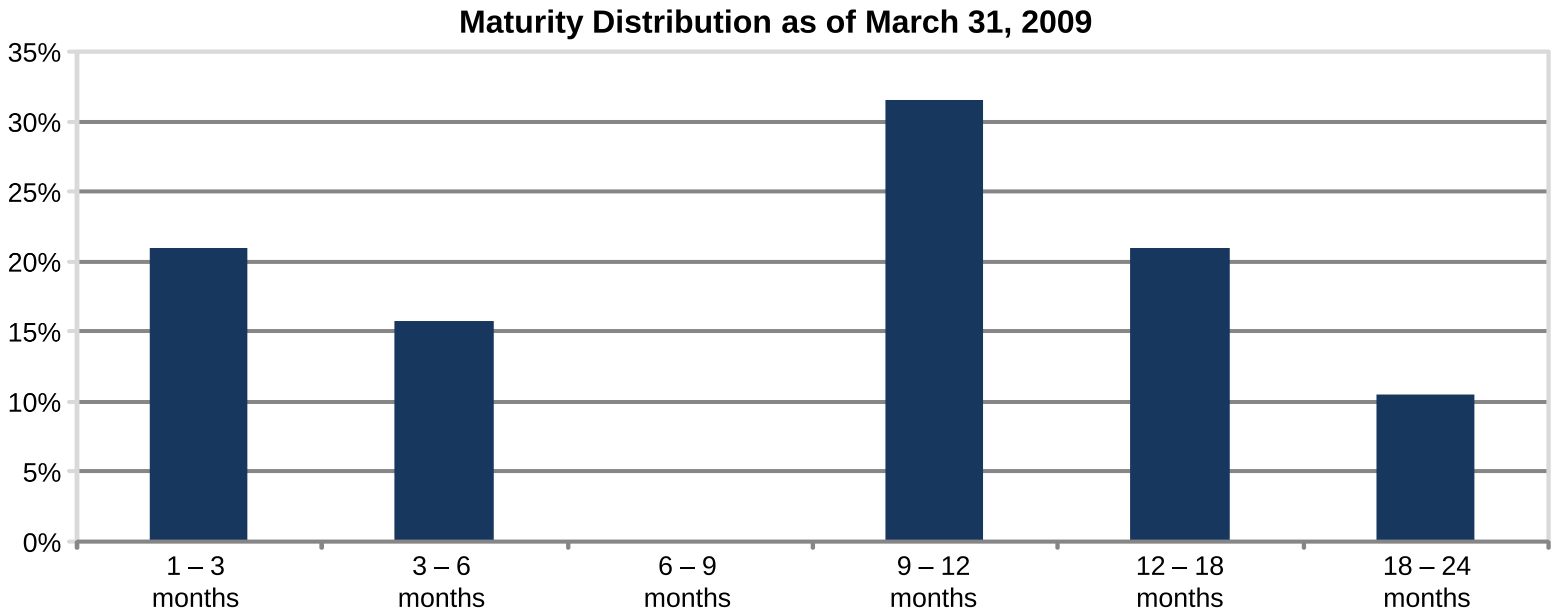
Topic	Comments on Federal Agency Credit Issues
Conclusion	With a majority of pool assets invested in Federal Agency instruments, we understand the County's concern for the credit standing, and ultimately the safety of these investments. • We continue to view Fannie Mae, Freddie Mac, Federal Home Loan Bank, and Federal Farm Credit Bank senior debt as a suitable investment for public agencies. The support arrangements for Fannie Mae and Freddie Mac are substantial. Very recently Treasury, Federal Reserve and FHFA officials have used strong language and announced substantial plans to demonstrate their support for the GSEs. • The Federal government support for the agencies is still not explicitly "full faith and credit" but many market participants have been including their senior debt securities in the category of government guaranteed investments.

Federal support actions	• Last year's passage of the Housing Recovery bill and other measures provided Fannie Mae and Freddie Mac significant government support including:
	  • The Federal Reserve may lend directly to Fannie Mae and Freddie Mac at the primary credit rate that it makes available to investment banks.
	  • The GSEs' line of credit to the Treasury was increased as much as $400 billion.
	  • The Treasury is now permitted to make direct equity investments in the two GSEs in unlimited amounts if necessary. Since it was enacted, and in line with Freddie Mac's agreement with Treasury under the terms of conservatorship, the company has received $44.6 billion in capital from The Treasury Department. Fannie Mae has received $15.2 billion. Most of these funds were requested by the agencies at the end of the first quarter of 2009. It is widely believed they will need considerable additional funds in coming quarters although accounting rule changes may lessen the amounts somewhat.
	  • The Treasury also will offer a temporary large line of credit to the Federal Home Loan Banks.

Recent market activities	• The Fed has been purchasing agency securities in the open market weekly and following their March meeting they announced a plan to buy $1.25 trillion of agency mortgage debt and $300 billion of agency securities. These actions and announcements have provided significant support to the agency sector. • As a result, agency spreads have collapsed recently and the agencies have had no difficulty accessing capital through the debt markets. • Further bolstering the need to support the agencies, it seems apparent that Fannie Mae, Freddie Mac and FHLB will be used as policy tools to help stabilize the mortgage and housing markets.

II. Risk Factors by Sector – U.S. Treasury Securities

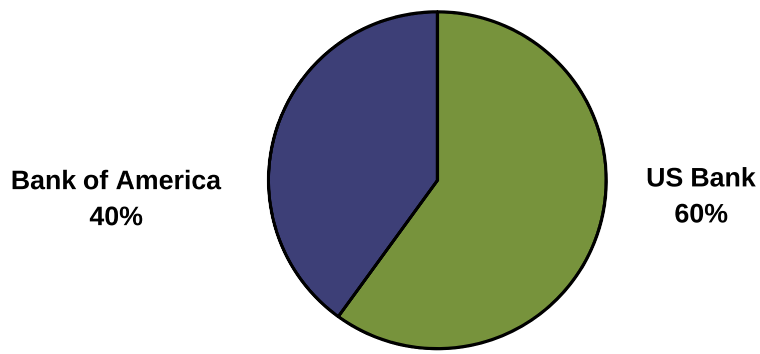
Topic	Observations
Observations	• Maturity distributions all fall within the County's Investment Policy Statement. U.S. Treasury securities are allocated between 1 and 24 months, well within the 5 year maximum maturity limit. • Treasury holdings have increased from 11% to 13.2% of the portfolio's holdings in the last 3-4 months. • As expected, securities issued by the U.S. Treasury pose minimal risk of default given their full faith and credit backing by the U.S. Government. However, given the dramatic decline in Treasury yields as investors worldwide have sought the safe-haven provided by Treasuries, they have significant potential for market value losses as interest rates rise. • It is widely believed that yields on U.S. Treasuries will have to rise in the short- to intermediate-term to entice buyers needed to finance bailout and stimulus programs. If, for example, the rate on a 2-year Treasury were to rise just 50 basis points, the related market value decline would completely offset the income paid by the note. • Appropriately, given these current market expectation, the County maintains a very low allocation to Treasuries. Generally, we recommend diversified portfolios that include Treasury securities. Although very low risk from a credit perspective, at current rates, there is more interest rate risk than usual in Treasury securities.



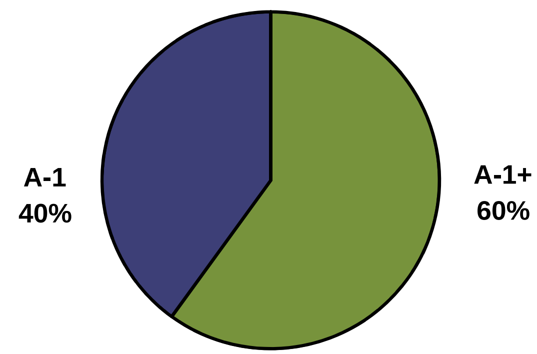
II. Risk Factors by Sector – Non-Negotiable Certificates of Deposit

Issuing Bank	Short-Term Credit Rating	Max Maturity (days)	Total Par Value
Bank of America NA	A-1/P-1/F1+	300	$75,000,000
U.S. Bank NA	A-1+/P-1/F1+	128	$50,000,000
Conclusion	▪ The County has allocated 100% of its CD balance towards highly rated, large, national corporate and banks. ▪ We encourage the County to continue making any new CD investments with the highly rated larger national corporate banks. ▪ A variety of recently created government programs have served to stabilized the commercial banking sector. This is especially true of the banks that have received capital injections and are issuing debt under the Temporary Liquidity Guarantee Program. While it still seems unlikely that a large commercial bank will be allowed to fail, the market remains uncertain. Additional details on the larger commercial banks' health may be revealed in the next few weeks as the Treasury Department's bank "stress tests" of the largest 19 banks (including Bank of America, U.S. Bank and Key bank) were recently concluded. ▪ The FDIC troubled bank list has grown considerably in recent quarters and there have been numerous bank failures . Care should be taken when investing in this sector outside of the FDIC insured limits on deposits (including CDs) and the FDIC insurance under the TLGP program. ▪ The County's CD exposure has continued to decrease, falling from 4% at the end of November 2008 to 3.5% at the end of March.		

Issuer Diversification
as of March 31, 2009



Credit Distribution (S&P)
as of March 31, 2009

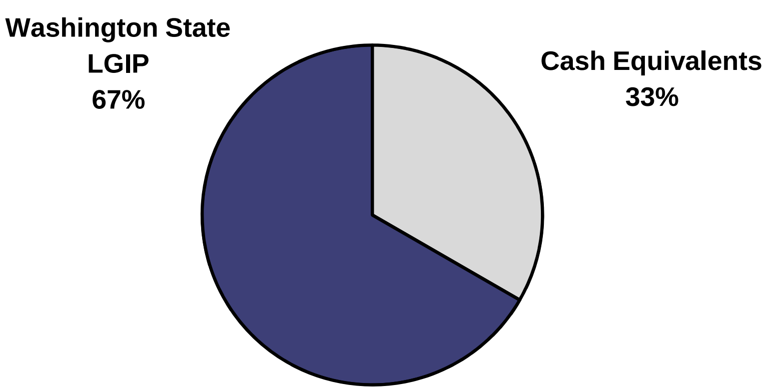


** All calculations above are based on total CD exposure, not overall Portfolio*

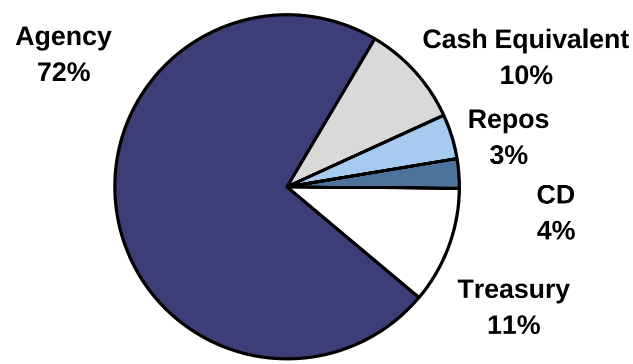
II. Risk Factors by Sector – LGIPs and Cash Equivalents

	Underlying Investments	Rating	Observations
Washington State LGIP	• Federal Agencies 72.4% • U.S. Treasuries 11.0% • Cash Equivalents 9.6% • Certificates of Deposit 4.2% • Repurchase Agreements 2.8% *As of March 31, 2009*	• N/A	• The State LGIP's 72% allocation to Federal Agencies indirectly raises the County pool's exposure to Federal agencies to 74%, just below the County's 75% agency limitation.
Key Bank, NA NOW Account	• NA	• A-1 short-term by S & P; on negative outlook • P-1 short-term by Moody's • F1 short-term by Fitch	• The County holds approximately $207 million in the Key Bank NOW account. Since the yield on this holding is below 0.5%, the entire amount in the account is covered by FDIC insurance. In past quarters the Key Bank account did not have this insurance protection. With the change in account type to a NOW account, the overall credit quality of the portfolio is enhanced.

Issuer Distribution
as of March 31, 2009



Washington State LGIP
Sector Distribution
as of November 30, 2008

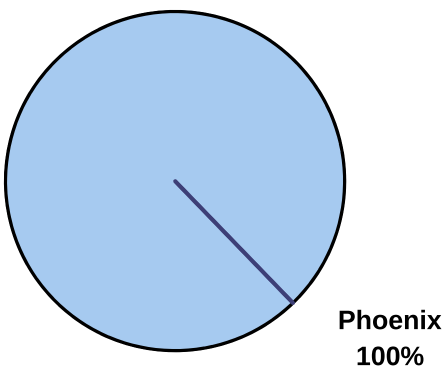


** All calculations above are based on total cash equivalents exposure, not overall Portfolio*

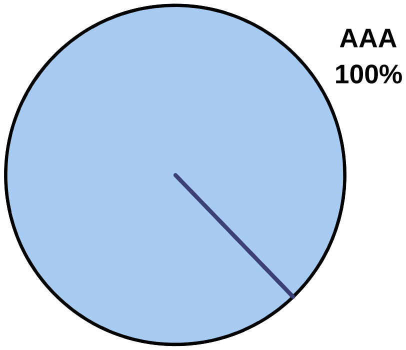
II. Risk Factors by Sector – Municipal Bonds

	Observations
Issuer Diversification	• Since our last portfolio review in November 2008, the County's Westchester County, NY Unlimited General Obligation holding has matured. Since then, the County has not taken additional action regarding its municipal security holdings. • This maturity has increased the pool's municipal credit distribution to 100% AAA securities (rated by Standard & Poor's) • Current municipal allocation is $15 million (or 0.40% or portfolio holdings) compared to $17 million of November 30, 2008.
Credit Distribution	• At this time, we see no adverse credit issues with the Phoenix, AZ bonds. This issue continues to carry AAA/Aa1 long term credit rating from Standard and Poor's and Moody's.
Conclusion	• There have been no ratings changes since our November report. The Phoenix, AZ issue represents minimal credit risk. • As yields on U.S. Treasury and other short-term securities have fallen dramatically, many municipal securities now offer significant yield advantage. The County may wish to selectively add exposure to the municipal sector; however, as with any spread product, we recommend a detailed credit review prior to any potential purchases.

Issuer Distribution
as of March 31, 2009



Credit Distribution
as of March 31, 2009



** All calculations above are based on total Muni exposure, not overall Portfolio*

II. Risk Factors by Sector – Municipal Bonds (cont'd.)

Issuer	Underlying Credit Rating of Issuer	Credit Rating of Bonds	Insurance Provider	Insurance Provider Rating
Phoenix, Arizona Unlimited General Obligation	Aa1/AAA	Aa1/AAA	N/A	N/A
	• The State of Arizona struggles with one of the largest state deficits, as a percentage of revenues. • The housing downturn has impacted Phoenix more acutely than the general U.S. housing market, with housing prices falling 35% in the last year in the Phoenix metro area. • The government of the City of Phoenix has reacted quickly, cutting programs across the board to present a balanced budget for 2009-2010. So while, the budget is dependent on roll-down from the state level the city has promised that if in the unlikely event that cuts from the State were to occur, more drastic cuts would be made to services to keep the budget balanced. • This demonstrated commitment to fiscal discipline leads to the conclusion that the debt of the City continues to be a safe investment. The ratings agencies concur and no watches or negative outlooks have been posted for the city's debt. • **The debt obligations of the City of Phoenix Arizona represent minimal risk.**			

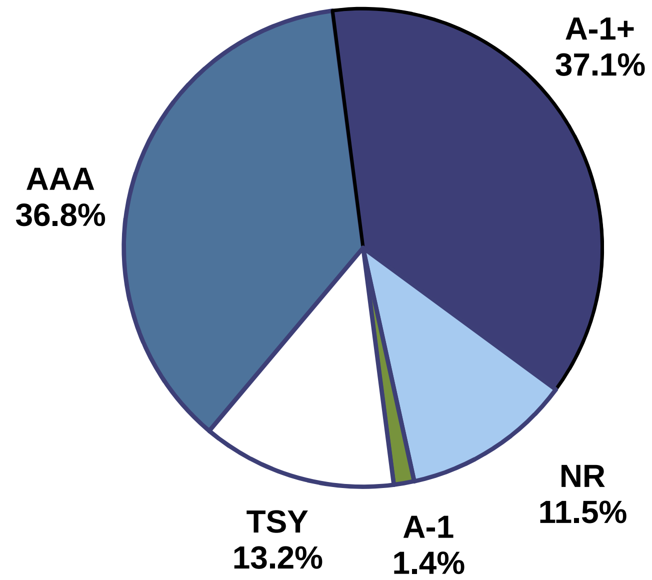
Ratings as of April 15, 2009

III. Overall Credit Quality

County Investment Pool Credit Analysis

- Since our November portfolio summary, the County Pool's overall average credit rating has increased. The maturity of certain Certificates of Deposit, an increase in the Agency and Treasury holdings, and FDIC insurance on the Key Bank NOW account have all pushed the credit profile of the pool higher.
- Nearly 90% of the County's Pool investments are in the highest rating category by Standard and Poor's, including 37% rated AAA, 39% rated A-1 or better, and 13% rated Treasury.
- Since the Key Bank account has been moved into a NOW account arrangement, we have included these assets in the AAA category given their FDIC insurance coverage. The County may still want to monitor the credit of the bank to minimize the potential for disruptions to service; Standard and Poor's has Key Bank on negative outlook.
- The Washington State LGIP does not carry a rating, although the pool's underlying investments are over 83% Federal Agency and Treasury securities.

Credit Distribution*
as of March 31, 2009

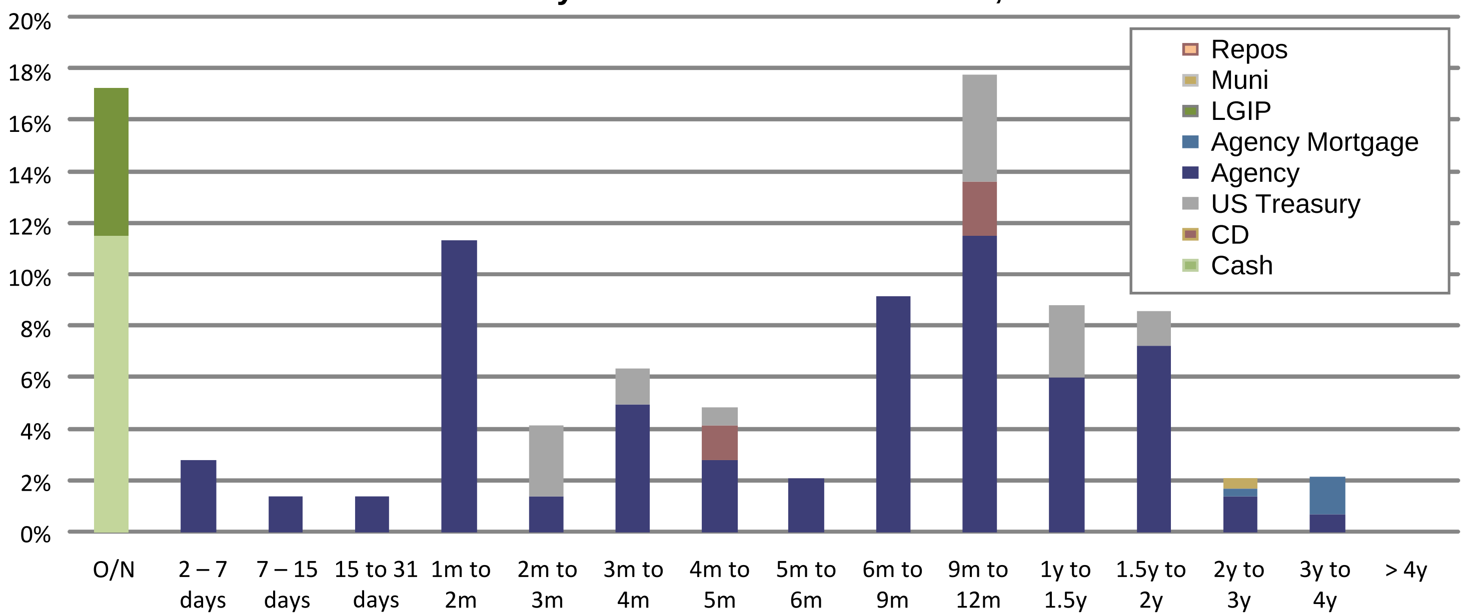


*Ratings by S&P

IV. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• The overall weighted average maturity ("WAM") of the portfolio has lengthened to 240 days from 169 days in November (viewing callable securities to their call dates and mortgage securities on an average life basis). • If securities with maturity longer than one year are excluded, the remaining "short" portfolio has a weighted average maturity of 103 days, up from 70 days in November. • This level of market risk is consistent with the objectives of the County's pool, and others with similar objectives, and is in keeping with the County's reported cash flow expectations.
Liquidity	• The portfolio appears to maintain adequate liquidity. Just over 17% of securities are allocated towards "overnight" liquid vehicles, such as the Washington State LGIP and the Key Bank NOW account. 23% of the portfolio matures within 31 days. • Additional analysis would be required to determine if the allocation between shorter and longer maturity securities is appropriate. Detailed history of pool balances, inflows and outflows would be needed.

Maturity Distribution as of March 31, 2009



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets;
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

Changes in Maturity Distribution

- .Over the past 12 months, King County has consolidated maturities to shorter areas of the yield curve. This has served to generally lessen the market or interest rate risk associated the pool's assets and has been responsive to the worsening economic climate over the time period.
  - As of March 2008,the County allocated a full 22% of funds to securities with maturities greater than 2 years.
  - As of March 2009, securities maturing at two years and greater made up only 4.3% of the pool.
  - Currently, 96% of the pool matures within two years.
- One way that the County has consolidated maturities and improved liquidity is through its management of its Federal Agency holdings.
  - As of March 2008, the Pool held approximately 72% of Agency holdings at maturities greater than one year.
  - As of March 2009, the County held approximately 74% of Agency holding at maturities less than one year.

Maturity Distribution March 2008 – March 2009